

The effect of internal auditor competence and objectivity, and management support on effectiveness of internal audit function and financial reporting quality implications at local government

Rindu Rika Gamayuni

Accounting Department,
Economic and Business Faculty,
Lampung University,
Sumantri Brojonegoro Street No. 1,
Lampung Province, 35145, Indonesia
Email: rindu.gamayuni@yahoo.com

Abstract: Governmental internal auditors have an important function at the central and local government, but the internal audit function is still not effective, and needs to be improved. Therefore, this research aims to examine the effect of the internal auditor competence and objectivity, and management support on the effectiveness of the internal audit function, and its implication on the quality of financial reporting. This research uses survey method with description verification approach, and it is conducted on local government at Java Island, Indonesia. Primary data was statistically tested by using SEM partial least square (PLS). This research has shown that the internal auditor competence and objectivity, and management support have significant influence to the effectiveness of the internal audit function. Moreover, the internal auditor competence and objectivity and the effectiveness of the internal audit function have significant influence to the financial reporting quality.

Keywords: internal auditor competence; objectivity; management support; effectiveness of internal audit function; financial reporting quality.

Reference to this paper should be made as follows: Gamayuni, R.R. (2018) 'The effect of internal auditor competence and objectivity, and management support on effectiveness of internal audit function and financial reporting quality implications at local government', *Int. J. Economic Policy in Emerging Economies*, Vol. 11, No. 3, pp.248–261.

Biographical notes: Rindu Rika Gamayuni is a Lecturer in the Economic and Business Faculty, Lampung University, Indonesia. She has been teaching public sector accounting, accounting theory, cost accounting, etc., since 2001. Her research interest includes public sector accounting, management accounting, and financial accounting. She received her PhD in Accounting from the Padjadjaran University, West Java, Indonesia in 2014. She has published articles in reputed national as well as international journals and presented papers in national and international conferences.

This paper is a revised and expanded version of a paper entitled 'The effect of internal auditor competence and objectivity, and management support on effectiveness of internal audit function and financial reporting quality implications (survey at local government in Java Island, Indonesia)', presented at the SIBR-RDINRRU Conference on Interdisciplinary Business and Economics Research, Osaka, 2–3 July 2015.

1 Introduction

In order to achieve transparent and accountable corporate governance, government must have qualified financial reporting. Financial reporting quality will yield useful information for the users, which is information that meets the qualitative characteristics of information (Belkaoui, 2004; Jonas and Blanchet, 2000; McDaniel et al., 2002; SFAC No. 8, 2010). Based on the data of Local Government Financial Statements Opinion Year 2008–2010 at Indonesia, there were only small parts of the department and non-department government organisation, and local governments succeeded in preparing their financial statements and getting an unqualified opinion (9%). Most of them still have qualified opinion (76%), adverse opinion (12%), and disclaimer opinion (12%). Based on data from The Indonesian Supreme Audit Agency on Internal Control System weaknesses and adherence to the regulations in auditing of the Local Government Financial Statements year 2008–2010, there is an increase in the number and value of cases of internal control system weakness and non-compliance with laws and regulations of the year 2008 until the year 2010, which indicated of the low quality of financial reporting in Indonesia (Purnomo, 2011). Based on the Transparency International Indonesia (2015), corruption in Indonesia happened mostly in the cities of Java Island. Therefore, we need an effective internal audit function in order to create quality financial reporting, transparent and accountable. This is consistent with previous studies results, that the internal audit function may improve the quality of financial reporting (Schneider and Wilner, 1990; Goodwin and Seow, 2002; Prawitt et al., 2008; Gramling et al., 2011).

Doyle et al. (2007) stated that the internal control system conceptually is the foundation for the creation of qualified financial reporting. The purpose of this internal control system that can be achieved, among others, is the existence of the internal audit function, as guarantor of the achievement of the internal control (Sawyer et al., 2009; Mihret and Yismaw, 2007). The function of effective internal audit is to achieve the objectives of the internal audit, which is to increase the efficiency and effectiveness of internal controls within organisations (Cohen and Sayag, 2010; Eden and Moriah, 1996).

Management commitment to implement the audit recommendations and management support to strengthen the internal audit function is very important for the effectiveness of the internal audit (Sawyer, 1995). Previous research has stated that management support affects the effectiveness of internal audit function (D'Aquila, 1998; Hung and Han, 1995; Albrecht, 1988; Cohen and Sayag, 2010). Based on the data of The Indonesian Supreme Audit Agency (Badan Pemeriksa Keuangan Republik Indonesia/BPK RI) (2012), in the year 2005–2011, most of the cases did not fit the recommendations and had not been followed up in the central and local government. It shows that support and commitment have not been fully implemented by the local government to resolve the recommendations in order to improve the quality of financial reporting.

Previous studies have also shown that the competence and objectivity of the internal auditors affect the effectiveness of the internal audit function (Schneider and Wilner, 1990; Goodwin and Seow, 2002; Abdel-Khalik et al., 1983; Brown, 1983; Messier and Schneider, 1988; Maletta, 1993; Krishnamoorthy, 2002; Desai et al., 2006; Soh and Bennie, 2010). Institute of Internal Auditors (IIA) (2012) states that the high quality of the internal audit function will improve the quality of financial reporting and it can detect aberrant decision.

Based on the research background, the problems that can be identified in this study are:

- 1 how much the influence of the internal auditors competence and objectivity, and management support to the effectiveness of the internal audit function
- 2 how much the influence of the internal auditors competence and objectivity, and the effectiveness of the internal audit function to the financial reporting quality.

This study intends to obtain empirical evidence about the influence of the internal auditor competence and objectivity, and management support for the effectiveness of the internal audit function and its implications for the quality of financial reporting.

2 Literature review and hypothesis

2.1 Internal auditor competence

Competence is the characteristics of the employees who contribute a successful job performance and achievement of organisational outcomes, including knowledge, skills and abilities in addition to other characteristics such as values, motivation, initiative and self-control, quality, experience, capacity cognitive, emotional resources, and others (Sinnott et al., 2002). Pickett (2010, p.387) and McIntosh (1999) stated that internal auditors must have the professional competence to carry out their duties and responsibilities. Furthermore, the Common Body of Knowledge (CBOK) by the IIA Research Foundation (2010), providing three dimensions for auditor competence: the knowledge, behaviour and technical skills, abilities.

2.2 Internal auditor objectivity

Arens and Loebbecke (1997, p.796) and the Institute of Internal Auditors Research Foundation (IIA, 2012) stated that the internal audit activity must be independent and objective in carrying out their work. Objectivity is an unbiased mental attitude that allows internal auditors to carry out the assignment in a way that they believe the results of their works and believe there is no compromise [Pickett, (2010), p.340; IIA, 2012]. Objective attitude will enable the internal auditors to conduct the examination in the right way, seriously and to ensure for their work [Brandon, 2010; Prawitt et al., (2008), p.654; Colbert, 1993]. Objectivity has three dimensions as follows:

- 1 impartial attitude
- 2 unbiased attitude
- 3 avoid any conflict of interest [Pickett, (2010), p.387; IIA, 2012; Brandon, 2010].

2.3 Management support

According to Mathis and Jackson (2003), management support is what is given and determined by the company to support the work processes, such as training and development, performance standards, equipment and technology. According to Cohen and Sayag (2010), top management support includes the provision of support required by

the internal audit, the good ratio between the number of internal auditors with audit work that has been planned and should be completed, the budget given to the internal audit department, which is sufficient to support the training and development for internal audit staff. Management support for the internal audit includes: responses to audit findings, the commitment to strengthen the internal audit, and resources for the internal audit department (Alzeban and Gwilliam, 2012; Mihret and Yismau, 2007).

2.4 Effectiveness of internal audit function

Cohen and Sayag (2010) state that the internal audit functions will be effective if it can achieve the desired objectives. The objective of internal audit is to improve the efficiency and organisational effectiveness (Eden and Moriah, 1996). Effective internal audit function according to Moeller (2005, p.269) and the IIA (2012) have five dimensions as follows:

- 1 planning
- 2 communication and approval
- 3 resource management
- 4 policies and procedures
- 4 coordination
- 5 reporting to the board and senior management.

Furthermore, The Indonesian Governmental Internal Controlling Apparatus Code of Ethics (2008) adds two dimensions for an effective internal audit function, namely:

- 1 quality control and development program
- 2 following up the complaints from the public.

The effective internal audit function is the internal audit which can achieve its goal in improving the efficiency and effectiveness of the organisation, through the process of planning, communication and approval, resource management, policies and procedures, coordination, reporting to the board and senior management, program development and quality control, and follow up on public complaints (Gamayuni, 2015).

2.5 Financial reporting quality

Qualified financial reporting is a financial reporting that produces useful information for its users, the information that meets the qualitative characteristics of information (Belkaoui, 2004; Jonas and Blanchet, 2000; McDaniel et al., 2002). Trueblood Report sets seven qualitative characteristics of financial reporting [Belkaoui, (2004), p.125], as follows:

- 1 relevance and materiality
- 2 form and substance
- 3 reliability

- 4 freedom from bias
- 5 comparability
- 6 consistency
- 7 understandability.

Dimensions of qualified financial reporting by The Indonesian Government Accounting Standards (2010) are:

- 1 relevant
- 2 reliable
- 3 comparability
- 4 understandability.

Qualified financial reporting is financial reporting that generates useful information for its users, which is information that meets the characteristics qualitative of information that is relevant, reliable, comparability, understandability (Gamayuni, 2014).

2.6 Hypothesis development

Moeller (2009, p.294) states that the internal auditor should have the competence to perform their job duties that can be an effective internal audit function. Internal auditors will be effective if they are competent and well trained [Arens and Loebbecke, (1997), p.788]. This is supported by Messier and Schneider (1988) result study explaining that the internal auditor competence is the most important factor. Maletta (1993) found that there is a relationship between the three factors (competencies, job performance, and objectivity) that affect the strength of the internal audit function. Krishnamoorthy (2002) concluded that these three factors (objectivity, performance and competence of the internal auditors) as important variables in determining the strength of the internal audit function. In this case, the skill is one indicator of competence. Given this evidence, we hypothesise

H1 Internal auditor competence affects the effectiveness of the internal audit function.

The ability of internal auditors in planning, carrying out the audit effectively, and communicating the useful findings objectively, will produce an effective internal audit function (Spraakman, 1997; Dittenhofer, 2001; Mihret and Yismaw, 2007). Internal auditors are effective if they are independent (objective) in the operating unit being evaluated [Arens and Loebbecke, (1997), p.788]. Objectively and timely present findings by the internal auditor will achieve an effective internal audit function (Dittenhofer, 2001). This is consistent with Desai et al. (2006) and Maletta (1993) that the internal auditor objectivity affects the internal audit function. Therefore, we hypothesise,

H2 Internal auditor objectivity affects the effectiveness of the internal audit function.

Sawyer (2003) states that management support for the internal audit function has been seen as critical to the success of that function. Audit findings and recommendations will not work much without the support and commitment from management to implement them (Cohen and Sayag, 2010). Research results by Hung and Han (1995), Albrecht

(1988) stated that management support affects the effectiveness of internal audit function. Given this evidence, we hypothesise,

H3 Management support affects the effectiveness of the internal audit function.

The effect of internal auditor competence on the financial reporting quality is in accordance with the theory stated by Arens and Loebbecke (1997, p.787), that the internal auditor must have competence in the form of knowledge, skills, and education in order to carry out its responsibilities related to the reliability and integrity of financial information to achieve the qualified financial reporting. Prawitt et al. (2009) and Gramling et al. (2011) proved that the internal auditor competence is significantly related to the quality of financial reporting. Therefore, we hypothesise,

H4 Internal auditor competence affects the quality of financial reporting.

Sawyer (2003) explains that the internal audit is a systematic and objective assessment of the internal auditors in the operation and control within the organisation, to determine whether the financial and operating information is accurate and reliable. Asare et al. (2003) and Prawitt et al. (2009) found that internal auditor objectivity affects the quality of financial reporting. Given this evidence, we hypothesise,

H5 Internal auditor objectivity affects the financial reporting quality.

Internal audit will be effective if it can achieve the reliability of financial reporting and provide quality assurance and integrity of financial reporting [Arens and Loebbecke, (1997), p.788; Hermanson et al., 2008]. Sawyer (2003) explains that the internal audit is an assessment of operation and control within the organisation, to achieve accurate and reliable financial and operating information, to identify and minimise the company risks. Goodwin and Seow (2002), and Schneider and Wilner (1990) found that the existence of an internal audit function affects the financial reporting quality.

H6 The effectiveness of the internal audit function affects the financial reporting quality.

3 Research method

3.1 Research design

The method used in this research is survey research methods, with partial least square (PLS) as analysis method. The unit of analysis of this study is the local government inspector working unit of the province/city/regency in the Java Island, Republik Indonesia. The data was collected in year 2013 with cross sectional study.

3.2 Variable operation

In this study, the exogenous variables and the endogenous variable are:

- 1 Exogenous variables consist of internal auditor competence (KAI), internal auditor objective (OAI), and management support (DM).
- 2 Endogenous variable comprises of the effectiveness of the internal audit function (EFAI) and financial reporting quality (KPK).

Table 1 Operationalisation variable

<i>Variable</i>	<i>Dimensions</i>	<i>Indicators</i>
<i>Internal auditor competence (KAI)</i> Pickett (2010), The IIA Research Foundation's Common Body of Knowledge (CBOOK) Study (2010), Cheng et al. (2002)	1 Knowledge	1.1 Knowledge about internal audit, internal control of government, local financial information systems, government accounting system. 1.2 Having functional Auditor certification 1.3 Knowledge about internal audit ethics standards
	2 Skills	2.1 Skills to keep a secret 2.2 Skills to communicate orally and in writing
	3 Expertise	3.1 Expertise in auditing standards and auditing practices 3.2 Expertise in the area of financial policies and procedures 3.3 Expertise in environmental governance unit audited 3.4 Expertise in the auditing of information technology of financial local government 3.5 Expertise in statistics and sampling techniques 3.6 Expertise in detecting fraud 3.7 Expertise in risk analysis and control assessment techniques
	4 Behaviour	4.1 Uphold professional responsibility as an examiner 4.2 Communication, discussion, and good cooperation with fellow examiner 4.3 Be careful, thorough, and careful in carrying out its duties and powers.
<i>Objectivity of the internal auditors (OAI)</i> Pickett (2010), Brandon (2010)	1 Unbiased attitude	1.1 Honest 1.2 Disclose all material facts 1.3 Be careful in using and maintaining all information obtained in the audit 1.4 Do not accept a bribe
	2 Impartial attitude	2.1 Do not use the information for personal gain
	3 Avoid conflict of interest	3.1 Do not have a social relationship/kinship with the auditee 3.2 The auditor who ever worked in the auditee office should not be involved in the examination 3.3 Do not participate in activities that may lead to conflicts of interest
		1.1 Equipment and technology 1.2 Comparison between the number of internal auditors with the audit work that has been planned and should be completed. 1.3 The budget given to the internal audit department
<i>Management support (DM)</i> Mathis and Jackson (2003), Cohen and Sayag (2010), Mihret and Yismaw (2007)	1 Resources provided by management	2.1 Follow-up on audit findings and recommendations 2.2 Commitment to strengthen the internal audit
	2 Management's commitment to use the audit recommendations and strengthen the internal audit	

Table 1 Operationalisation variable (continued)

<i>Variable</i>	<i>Dimensions</i>	<i>Indicators</i>	
<i>The effectiveness of the internal audit function (EFAI)</i> Moeller (2005)	1	Planning internal audit assignments	1.1 Consider activities that have the greatest risk 1.2 Consideration from the leader 1.3 Identify, analyse, evaluate and document sufficient information to achieve the objectives of the assignment. 1.4 Plan audit activities, resources required, vision, mission, goals, strategies, programs and activities of auditors every five years. 1.5 Arrange the plan based on the principles of harmony, alignment, avoiding overlapping and repetitive examination and considering the efficiency and effectiveness of resource use.
	2	Communication and approval	2.1 Communication about audit plan 2.2 Communication about resources
	3	Management of resources	3.1 Manage and utilise its resources economically, efficiently and effectively
	4	Policies and procedures of internal audit	4.1 The contents of the policy and procedures of internal audit 4.2 Review of policies and procedures continuously to be effective.
	5	Coordination	5.1 Coordination of monitoring plans and monitoring results, both with other internal auditors and external auditors.
	6	The internal audit reports to the CEO	6.1 The contents of the report: the realisation of the activities, problems, obstacles. 6.2 The report submitted periodically to the leadership.
	7	Development program and quality control	7.1 Developing programs and controlling audit quality covering all aspects of audit activities in the Internal Supervisory Government Apparatus (APIP).
	8	Following the public complaints	8.1 Handling complaints with clearly mechanisms and procedures, transparent and accountable based on the rule
<i>Financial Reporting Quality (KPK)</i> Belkaoui (2004), Beest et al. (2009) and The Indonesian Government Accounting Standards (2010)	1	Relevant	1.1 Having feedback 1.2 Having predicted value 1.3 On time 1.4 Detailed information
	2	Reliable	2.1 Honest presentation 2.2 Can be verified/tested 2.3 Information is neutral
	3	Comparability	3.1 Consistence in accounting policies application 3.2 Comparability between time to time 3.3 Comparability between entities
	4	Understandability	4.1 Utilisation 4.2 The form and terms can be understood

3.3 Population and sample

The target population in this study was all of local government inspectorate agencies of the province/city/regency in Java Island, Indonesia. Java Island consists of six provinces and 118 cities/regency. There were 42 inspectorate samples selected using a single stage cluster sampling area. The respondents were team leaders, team members, technical controllers, inspectors, and quality control at each inspectorate in province/city/regency in Java Island.

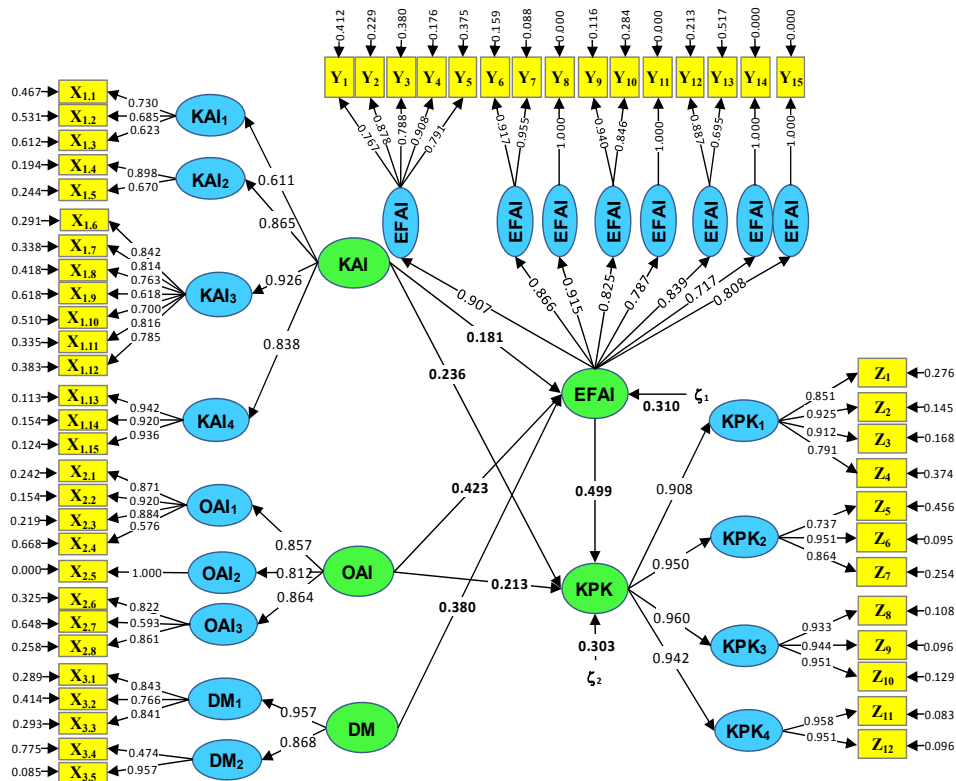
4 Findings and discussion

4.1 Model measurements (validity test)

Based on the result of validity test, all of the variables have been valid, proven by the AVE scores higher than 0.5. It means that the information contained in all of the dimensions and indicators was represented in the latent variables. The composite reliability of the latent variable was higher than the recommended score as much as 0.7 which means that all dimensions and indicators had high consistency.

By using PLS analysis method, it was acquired a full model path diagram in Figure 1.

Figure 1 Coefficient standards of structural modelling (see online version for colours)



4.2 Structural model (hypothesis testing)

4.2.1 Effect of internal auditor competence and objectivity, and management support on the effectiveness of internal audit function

The first hypothesis testing result shows that there is significant influence of the internal auditor competence to the effectiveness of the internal audit function as much as 11.10%. Simultaneously, the three variables, namely the competence of internal auditors, the objectivity of the internal auditors, and management support, significantly influenced the effectiveness of the internal audit function by 69%. The remaining 31% was influenced by other variables which were not examined in this study because were not associated with the phenomenon. The results are consistent with research conducted by Messier and Schneider (1988), Maletta (1993), Krishnamoorthy (2002), Desai et al. (2006) and Soh and Bennie (2010), that the internal auditor competence affects the effectiveness of the internal audit function.

Table 2 Effect of internal auditor competence (KAI) and objectivity (OAI), and management support (DM) on the effectiveness of internal audit function (EFAI)

<i>Influence</i>	<i>Path coefficient</i>	<i>Direct effect</i>	<i>Indirect effect</i>	<i>Total effect</i>	<i>t value</i>	<i>t critical</i>	<i>Ha</i>
KAI → EFAI	0.181	3.30%	7.80%	11.10%	2,547	1.96	Accepted
OAI → EFAI	0.423	17.80%	12.70%	30.50%	6.828	1.96	Accepted
DM → EFAI	0.380	14.40%	13%	27.40%	5.173	1.96	Accepted
Influence overall				69%			

Source: The data was reprocessed

The second hypothesis testing result shows that there is significant influence of internal auditor objectivity to the effectiveness of the internal audit function by 30.50%. This is consistent with the results of research conducted by Desai et al. (2006), Soh and Bennie (2010), Messier and Schneider (1988), Maletta (1993) and Krishnamoorthy (2002), that there is significant influence of internal auditor objectivity to the effectiveness of the internal audit function.

The third hypothesis testing result shows that there is significant influence of management support to the effectiveness of the internal audit function at the inspectorate in each province/city/regency amounted to 27.40%. This is consistent with the results of research conducted by Cohen and Sayag (2010), D'Aquila (1998), Alzeban and Gwilliam (2012), and Mihret and Yismau (2007), stating that management support affects the effectiveness of the internal audit function.

4.2.2 Effect of internal auditor competence, internal auditor objectivity, and effectiveness of internal audit function on the financial reporting quality

The fourth hypothesis testing result shows that there is significant influence of the internal auditor competence to the financial reporting quality as much as 15.20%. The result is consistent with the result of research conducted by Prawitt et al. (2008), Gramling et al. (2011) and Asare et al. (2003), that the internal auditor competence affects the financial reporting quality.

The fifth hypothesis testing result shows that there is significant influence of the internal auditor objectivity to the financial reporting quality as much as 14.70%. This is consistent with the result of research conducted by Prawitt et al. (2008), Gramling et al. (2011) and Asare et al. (2003).

The sixth hypothesis testing result shows that there is significant influence of the effectiveness of the internal audit function to the financial reporting quality as much as 24.90%. This is consistent with the result of research conducted by Schneider and Wilner (1990), Prawitt et al. (2008) and Gramling et al. (2011) proving that the effectiveness of the internal audit function affects the financial reporting quality.

Table 3 Effect of internal auditor competence (KAI), internal auditor objectivity (OAI), and effectiveness of internal audit function (EFAI) on the financial reporting quality (KPK)

<i>Influence</i>	<i>Path coefficient</i>	<i>Direct effect</i>	<i>Indirect effect</i>	<i>Total effect</i>	<i>t value</i>	<i>t critical</i>	<i>Ha</i>
KAI → KPK	0.236	5.60%	9.60%	15.20%	2,223	1.96	Accepted
OAI → KPK	0.213	4.50%	10.20%	14.70%	2.007	1.96	Accepted
EFAI → KPK	0.499	24.90%	-	24.90%	4,442	1.96	accepted
Influence overall				54.80%			

Source: The data was reprocessed

5 Conclusions and suggestions

5.1 Conclusions

Based on the phenomenon, the hypothesis, and the results of the study, conclusions that can be drawn as the following:

- 1 Internal auditor competence and objectivity, and management support affect the effectiveness of the internal audit function.
- 2 Internal auditor competence and objectivity, and the effectiveness of the internal audit function affect the financial reporting quality.

5.2 Suggestions

- 1 To improve the competence of the internal auditor:
 - a more trainings, seminars, workshops, especially on: government accounting standards and the government internal control system, regional financial information system, fraud detection, risk analysis and control assessment techniques should be conducted
 - b internal auditors must be applied to the auditor competency standards.
 - c the Indonesian Supreme Audit Agency should continue to guide the Government Internal Supervisory Apparatus in relation to the government internal control system.

- 2 To enhance the management support:
 - a increase the number of functional auditor
 - b prepare adequate equipment and technology
 - c hold the coordination meeting regularly to discuss and to follow up the findings and recommendations of the audit
 - d provide a firmer sanctions for parties who are late or do not follow up the findings and recommendations.
- 3 There are needs to be a synergy among the internal auditor, auditee, and heads of province/city/region

References

- Abdel-khalik, A.R., Snowball, D. and Wragge, J.H. (1983) 'The effects of certain internal audit variables on the planning of external audit program', *The Accounting Review*, April, Vol. 58, No. 2, pp.215–227.
- Albrecht, W.S. (1988) *Evaluating the Effectiveness of Internal Audit Departments*, Institute of Internal Auditors Research Foundation, Altamonte Springs, FL.
- Alzeban, A. and Gwilliam, D. (2012) *Perception of Managers and Internal Auditors as to Factors Affecting the Effectiveness of Internal Audit in the Public Sector Context*, Working Paper, A22, King Abdulaziz University.
- Arens, A.A. and Loebbecke, J.K. (1997) *Auditing: An Integrated Approach*, 7th ed., Prentice Hall International Inc., New Jersey, Canada.
- Asare, S., Davidson, R.A. and Gramling, A.A. (2003) 'The effect of management incentives and audit committee quality internal auditors' planning assessments and decisions', *Social Science Research Network Electronic Journal*, 04/2003, pp.1–32, DOI: 10.2139/ssrn.403240 [online] <http://ssrn.com/abstract=403240> and <http://dx.doi.org/10.2139/ssrn.403240> (accessed 8 March 2013).
- Beest, F.v., Braam, G. and Boelens, S. (2009) *Quality of Financial Reporting: Measuring Qualitative Characteristics*, Nijmegen Center for Economics (NiCE), Institute for Management Research, Radboud University Nijmegen, The Netherlands [online] <http://www.ru.nl/nice/workingpapers> (accessed 24 January 2013).
- Belkaoui, A.R. (2004) *Accounting Theory*, 5th ed., Published by Thomson Learning, London.
- Brandon, D.M. (2010) 'External auditor evaluations of outsourced internal auditors', *Auditing: A Journal of Practice & Theory*, Vol. 29, No. 2; pp.159–173.
- Brown, P.R. (1983) 'Independent auditor judgment in the evaluation of internal audit function', *Journal of Accounting Research*, Autumn, Vol. 21, No. 2, pp.444–445.
- Cheng, R.H., Engstrom, J.H. and Kattelus, S.C. (2002) 'Educating government financial manager: university collaboration between business and public administration', *The Journal of Government Financial Management*, Vol. 51, No. 3, pp.1–15, Alexandria.
- Cohen, A. and Sayag, G. (2010) 'The effectiveness of internal auditing: an empirical examination of its determinants in Israeli organisations', *Australian Accounting Review* No. 54, Vol. 20, No. 3, pp.296–307.
- Colbert, J.L. (1993) 'Discovering opportunities for a new working relationship between internal and external auditor', *National Public Accountant*, January, Vol. 38, No. 1, p.40, Washington.
- D'Aquila, J.M. (1998) 'Is the control environment related to financial reporting decisions?', *Managerial Auditing Journal*, Vol. 13, No. 8, pp.472–478.

- Desai, V., Roberts, R.W. and Srivastava, R.P. (2006) 'An analytical model for external auditor evaluation of the internal audit function using belief functions', *Contemporary Accounting Research*, Vol. 27, No. 2, pp.537–575.
- Dittenhofer, M. (2001) 'Internal auditing effectiveness: an expansion of present methods', *Managerial Auditing Journal*, Vol. 16, No. 8, pp.443–450.
- Doyle, J.T. et al. (2007) 'Impact of internal audit function (IAF) on financial reporting quality (FRQ): evidence from Saudi Arabia', *The Accounting Review*, Vol. 82, No. 5, pp.1141–1170.
- Eden, D. and Moriah, L. (1996) 'Impact of internal auditing on branch bank performance: a field experiment', *Organizational Behavior and Human Decision Performance*, Vol. 68, No. 3, pp.262–271.
- Gamayuni, R.R. (2014) *The Effect of Internal Audit Function Effectiveness and Implementation of Government Accounting Standard on Financial Reporting Quality*, Working paper, Accounting Department, Lampung University, Indonesia.
- Gamayuni, R.R. (2015) 'Pengaruh kompetensi dan objektivitas auditor internal terhadap efektivitas fungsi audit internal', in *IAIKAPd Proceedings of The Accounting Science Conference II in Jakarta, Indonesia, 2015*, UPN Veteran, Jakarta, Indonesia, p.69.
- Goodwin, J. and Seow, J.L. (2002) 'The influence of corporate governance mechanisms on the quality of financial reporting and auditing: perceptions of auditors and directors in Singapore', *Accounting and Finance*, Vol. 42, pp.195–223.
- Gramling, A.A., Nuhoglu, I. and Wood, D.A. (2011) *Factors Associated with the Internal Audit Function Having an Impact: Comparisons between Organizations in a Developed and an Emerging Economy*, Bogazici University, Research Fund Center, Electronic copy [online] <http://ssrn.com/abstract=1947393> (accessed 25 August 2012).
- Hermanson, D.R., Ivancevich, D.M. and Ivancevich, S.H. (2008) 'Building an effective internal audit function: learning from SOX Section 404', *Review of Business*, Winter, Vol. 2, No. 2, p.28.
- Hung, J.-H. and Han, H.L. (1995) *An Empirical Study on Effectiveness of Internal Auditing for Listed Firms in Taiwan* [online] <http://www3.bus.osaka-cu.ac.jp/apira98/archives/pd> (accessed 4 November 2008).
- The Institute of Internal Auditor (IIA) Research Foundation (2010) *The IIA's Global Internal Audit Survey: A Component of the CBOK Study*, Altamonte Springs, Florida.
- Institute of Internal Auditors (IIA) (2012) *International Standards for the Professional Practice of Internal Auditing*, The Institute of Internal Auditors Standards and Guidance, Altamonte Springs, Florida.
- Jonas, G. and Blanchet, J. (2000) 'Assessing quality of financial reporting', *Accounting Horizons*, Vol. 14, No. 3, pp.353–363.
- Krishnamoorthy, G. (2002) 'A multistage approach to external auditor's evaluation of the internal audit function', *Auditing*, Vol. 21, No. 1, p.95, Sarasota.
- Maletta, M.J. (1993) 'An examination of auditors' decisions to use internal auditors as assistants: the effect of inherent risk', *Contemporary Accounting Research*, Vol. 9, No. 2, pp.508–525.
- Mathis, R.L. and Jackson, J.H. (2003) *Human Resource Management*, 10th ed., Cengage Learning, Canada.
- McDaniel, L., Martins, R. and Maines, L. (2002) 'Evaluating financial reporting quality: the effects of financial expertise vs. financial literacy', *The Accounting Review*, Vol. 77, No. s-1, pp.139–167.
- McIntosh, E.R. (1999) *Competency Framework for Internal Auditing: An Overview*, The Institute of Internal Auditors Research Foundation, Altamonte Springs, FL.
- Messier Jr., W.F. and Schneider, A. (1988) 'A hierarchical approach to the external auditor's evaluation of the internal audit function', *Contemporary Accounting Research*, Spring, Vol. 4, No. 2, pp.337–353.
- Mihret, D.G. and Yismaw, A.W. (2007) 'Internal audit effectiveness: an Ethiopian public sector case study', *The Auditor Internal*, Vol. 22, No. 5, pp.470–484.

- Moeller, R.R. (2005) *Brink's Modern Internal Auditing*, 6th ed., John Wiley & Sons, Inc., Hoboken, New Jersey.
- Moeller, R.R. (2009) *Brink's Modern Internal Auditing. A Common Body of Knowledge*, 7th ed., John Wiley & Sons, Inc., Hoboken, New Jersey.
- Pickett, K.H.S. (2010) *The Internal Auditing Handbook*, 3rd ed., John Wiley & Sons Ltd., The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, UK.
- Prawitt, D.F., Glover, S.M., Prawitt, D.F. and Wood, D.A. (2008) 'Internal audit sourcing arrangement and the external auditor's reliance decision', *Contemporary Accounting Research*, 1st ed., Vol. 25, No. 1, pp.193–213.
- Prawitt, D.F., Smith, J.L. and Wood, D.A. (2009) 'Internal audit quality and earnings management', *Accounting Review*, Vol. 84, No. 4, pp.1255–1280.
- Purnomo, H. (2011) *BPK: Masih Terdapat Kelemahan yang Memerlukan Perbaikan*, Siaran Pers BPK, 5 April.
- Sawyer, B.L. (1995) 'An internal audit philosophy', *Internal Auditor*, August, pp.46–55.
- Sawyer, B.L. (2003) *The Practice of Modern Internal Auditing*, 5th ed., IIA, Altamonte Springs, Florida.
- Sawyer, L.B., Mortimer, S. and James, H. (2009) 'Salemba Empat Buku 1 Edisi 5', *Internal Audit*, The Institute of Internal Auditors.
- Schneider, A. and Wilner, N. (1990) 'A test of audit deterrent to financial reporting irregularities using the randomized response technique', *The Accounting Review*, Vol. 65, No. 3, pp.668–681.
- Sinnott, G.C. et al. (2002) *Competencies*, Report of the Competencies Workgroup, September, The Department of Civil Service and Governor's Office of Employee Relations, USA.
- Soh, D.S.B. and Bennie, N.M. (2010) *The Internal Audit Function: Perceptions of Internal Audit Roles, Effectiveness, and Evaluation*, Department of Accounting and Corporate Governance, Macquarie University, Sydney, Australia.
- Spraakman, G. (1997) 'Transaction cost economics: a theory of internal audit', *Managerial Auditing Journal*, Vol. 17, No. 7, pp.323–330.
- Statement of Financial Accounting Concepts (SFAC) No. 8. (2010) Financial Accounting Standards Board of the Financial Accounting Foundation, Connecticut.
- The IIA Research Foundation's Common Body of Knowledge (CBOK) Study (2010) *Standards and Guidance. The IIA Research Foundation, CBOK (A Global Summary of the Common Body of Knowledge 2006)*, Maitland Avenue, Altamonte Springs, Florida.
- The Indonesian Government Accounting Standards (2010) Peraturan Pemerintah Republik Indonesia Nomor 71 Tahun 2010 Tentang: Standar Akuntansi Pemerintah (the Indonesian Government Accounting Standards).
- The Indonesian Governmental Internal Controlling Apparatus Code of ethics (2008) Peraturan Menteri Negara Pendayagunaan Aparatur Negara Nomor: PER/04/M.PAN/03/2008 Tentang: Kode Etik Aparat Pengawasan Intern Pemerintah (The Indonesian Governmental Internal Controlling Apparatus Code of Ethics).
- The Indonesian Supreme Audit Agency (Badan Pemeriksa Keuangan Republik Indonesia/BPK RI) (2012) *Ikhtisar Hasil Pemeriksaan Semester 1 Tahun 2011*, September, Jakarta.